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SUBJECT: HIGH UNDER-EMPLOYMENT DESPITE SOLID MACRO SHOWING

1. Summary: Despite doubling yearly exports since 2001, (projected to reach \$15 billion in 2005) and 49 consecutive months of GDP growth, Peru's labor force remains largely informal and under-employed. In Lima, the average rate of open unemployment through July 2005 was 9.58 percent, up slightly from 9.24 percent over the same period in 2001. While the unemployment rate remains relatively low, severe levels of under-employment persist. Since 2001 an annual average of 55 percent of economically active persons has experienced under-employment. More significant, at least 60 percent of those currently employed are under-employed. While Peru's macroeconomic numbers reflect a booming economy, formal job creation has lagged behind. End Summary.

Impressive Macroeconomic Growth

2. Peru's economy has emerged as one of the most dynamic in Latin America. GDP grew 4.8 percent in 2004, reaching \$67 billion. Exports -- propelled by high mineral prices and trade benefits under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) -- surged above \$12 billion in 2004, up 39 percent in dollar terms from 2003. The economy has continued to gather steam in 2005, with a GDP growth rate of 5.7 percent through the first two quarters. Exports are up another 20 percent in dollar terms compared to the same period in 2004, and international reserves have hit a record \$15.4 billion.

Relatively Low Unemployment

3. Peru continues to enjoy a relatively low rate of open unemployment at 9.58 percent through July 2005, according to monthly survey statistics published by the GOP's statistical agency, INEI. Unlike many Latin American countries, Peru's unemployment rate has not exceeded 10 percent annually since 1990. The working age population of Lima -- those over 14 years old -- reached 6.1 million in July, displaying a steady two percent annual growth up from 5.7 million in the same month of 2001. Approximately 68 percent of the working age population is considered economically active persons, defined as those employed or actively seeking employment. Of these 4.1 million economically active persons, some 26 percent experience at least one period of unemployment each year.

4. Within the working age population, those between the ages of 14 and 24 suffer the most from unemployment. Since 2001, this age group's open unemployment rate has increased from 14.4 percent to 16.4 in July 2005, more than double the unemployment rate of any other age grouping. Those between 14 and 24 years old represent 42 percent of all those unemployed in Lima while constituting only 26 percent of the economically active. (Note: Because no annual nation-wide comprehensive employment survey exists in Peru, we use statistics for the Lima Metropolitan area. While the capital city clearly does not cover the entire population of Peru, Lima comprises approximately 32 percent of Peru's working age population and accounts for 73 percent of formal employment. End Note.)

5. The rate of labor force activity (active/working age) of 14-24 year olds and those older than 45 has been negative since 2001, signaling that some are opting for inactivity rather than participating in the labor market. The result is passive unemployment: those who wish to work but do not actively participate in the workforce, largely because of low expectations of finding a decent job. The young are most severely affected, as their lack of labor experience makes them less desirable candidates for formal jobs. Passive unemployment is estimated at five percent of the economically active population.

But Staggering Under-Employment

6. While Peru's unemployment rate remains constant around

9.5 percent, levels of under-employment continue to grow. Two types of under-employment exist in Peru: visible and invisible. Visible under-employment occurs when a person works less than thirty-five hours a week, but wishes to work more and makes an effort to do so. Those suffering from invisible under-employment work more than thirty-five hours weekly but receive less than the minimum wage of \$142 per month. An average of 55.3 percent of the economically active persons has experienced under-employment since 2001. Invisible under-employment remains the most prominent, affecting 38 percent of this group. Visible under-employment affects a smaller, yet considerable 17.3 percent of economically active persons.

17. More significant, 60.7 percent of those currently employed in Lima are under-employed. A large portion (43 percent) of this under-employment is invisible, signaling a large incidence of informality in the labor market (see septel). A disparity exists between age groups affected. An overwhelming 79 percent of employed 14-24 year olds suffer from under-employment, 59 percent of which is invisible. Workers over the age of 45 are also largely affected, with 59 percent under-employed, 40 percent of which is invisible. Those employed between 25 and 44 years old are the least affected by under-employment, with 25 percent working less than desired or receiving less than minimum wages.

COMMENT

18. Although open unemployment has consistently remained under 10 percent in Peru, polls continually list unemployment or lack of adequate employment as the number one public concern. In Lima, less than one-third of those who actively seek work find adequate employment. While positive macro growth numbers suggest that all of Peru is prospering, severe levels of under-employment, particularly invisible under-employment that largely affects lower paid workers, indicate a struggling labor market beset by informality. The underemployment problem is exacerbated by low levels of public and private investment, which declined nearly 2 percent as a percentage of GDP, from 20.2 percent in 2000 to 18.5 at the beginning of 2005. Many analysts believe that for Peru's labor market to experience continuous and sustained expansion, GDP must continue to grow more than 5.5 percent annually and investment must exceed 25 percent of GDP.

POWERS